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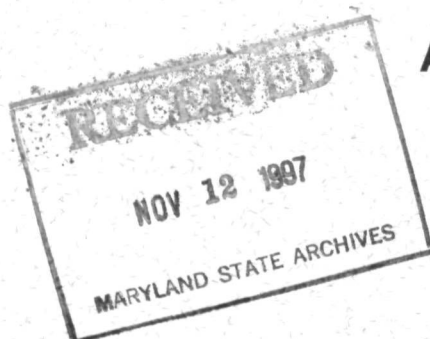
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**COMMISSION TO STUDY WAYS
TO IMPROVE THE FINANCIAL VIABILITY
OF THE HORSE RACING INDUSTRY**



ANNAPOLIS, MARYLAND

November 1997



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November 1997

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COMMISSION TO STUDY WAYS TO IMPROVE THE FINANCIAL VIABILITY OF THE HORSE RACING INDUSTRY

ANNAPOLIS, MARYLAND 21401

November 1, 1997

Members, Legislative Policy Committee
Members, Senate Finance Committee
Members, House Committee on Ways and Means

Ladies and Gentlemen:

The Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry was created through Chapter 750 of the 1997 legislative session. The Commission, comprised of four senators, four delegates, and four non-legislative members, was charged with studying ways to improve the financial viability of the racing industry in Maryland, with special consideration for the impact on the communities surrounding Pimlico Race Course.

The Commission met four times during the 1997 interim to explore this issue. Briefings were conducted on the background of the issue and the current situation in Maryland and throughout the states. Stakeholders in the industry and from the Pimlico Racetrack Neighborhoods Task Force presented their own testimony to the Commission during an all-day hearing. Finally, options were discussed to address the situation for the short-term, intermediate-term, and long-term with recommendations on which options to pursue being decided.

The Commission wishes to thank the representatives of the public and private organizations who assisted the Commission in gathering information and presenting options. The following report should lay the groundwork for the consideration of ways to keep horse racing financially viable in the State of Maryland, and the Commission members look forward to a continuing dialogue on this subject during the 1998 legislative session.

Sincerely,

A handwritten signature in cursive script, reading "Eugene A. Conti, Jr.".

Secretary Eugene A. Conti, Jr.
Chairman

Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry

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Recommendations of the Racing Study Commission

Short-Term Measures

Financial Relief

The Racing Study Commission recommends:

- continuing the reduction of the State wagering tax from 0.5 percent to 0.32 percent, resulting in approximately \$1 million to support increases in purses;
- utilizing \$10 million of State revenue over attainment to support increased spending on non-capital items, including purses, marketing, and the Maryland Bred Funds;
- that the State Lottery Agency work with the horse racing industry to establish special lottery games that will both increase lottery revenues and increase the visibility of horse racing in Maryland (special lottery game proceeds would be allocated to the general fund and not be dedicated to the horse racing industry);
- continuing the distribution of \$500,000 from thoroughbred uncashed parimutuel tickets to support the Maryland Million;
- distributing any remaining funds in the Racing Special Fund account after the end of year close-out to the horse racing industry; and
- that all financial relief measures sunset on June 30, 1999.

Regulatory Issues

To reduce the regulatory burden on the horse racing industry, the Racing Study Commission recommends the repeal of regulatory or statutory requirements for Maryland Racing Commission approval of:

- administrative personnel of the racing association;
- officials and others employed during a race meet;
- any additions or changes to the aforementioned positions;
- post time for the first race each day and the amount of time between each races;
- admission prices;

- price of services performed; and
- prices of articles sold at a track.

OTB Arrangements

The Racing Study Commission recommends that the Maryland Racing Commission fully enforce existing statutory standards for Off-Track Betting facilities. It is also recommended that the Maryland Racing Commission perform annual reviews of the financial and physical condition of all OTB facilities and report its findings to the General Assembly.

Land Preservation

The Racing Study Commission supports additional funding for the Maryland Agricultural Land Preservation Program, including the reimbursement of funds previously removed from these programs. The Racing Study Commission encourages horse farm owners to participate in these programs.

The Racing Study Commission recommends that horse breeding be recognized as one criterion for inclusion in a Rural Legacy plan.

Intermediate-Term Measures

Bowie Race Course Training Center

The Racing Study Commission recommends that the Department of Agriculture and the Department of Natural Resources, in conjunction with the City of Bowie and Prince George's County, study the feasibility of purchasing the Bowie Race Course Training Center. The Center is recognized as valuable and environmentally sensitive open space which is important to the thoroughbred horse racing industry.

Interactive Wagering

The Racing Study Commission recommends that the Maryland Racing Commission promulgate regulations on telephone account wagering.

Regional Racing

The Racing Study Commission encourages the Secretary of the Department of Labor, Licensing and Regulation and the Chairman of the Maryland Racing Commission to meet with their counterparts in Virginia, Delaware, Pennsylvania, New Jersey, and West Virginia to seek better cooperation on racing issues, coordination of racing schedules, and financing of regional racing circuits.

Long-Term Measures

Public-Private Partnerships

The Racing Study Commission recommends that the Department of Labor, Licensing and Regulation, in consultation with relevant State agencies, including the Maryland Stadium Authority and the Department of Agriculture, coordinate a study of:

- the economic impact of the horse industry in Maryland to assess the benefits of future State investment;
- a potential State partnership with the racetracks;
- capital improvement needs at the existing racetracks and options for financing such improvements; and
- the feasibility of constructing a new racing facility to centralize thoroughbred and harness racing in Maryland.

Marketing

The Racing Study Commission recommends that a partnership be developed between the horse racing industry (i.e. a consortium of track owners, breeders, trainers, and others) and the State to conduct a comprehensive market survey and develop a marketing strategy to be completed by the end of 1998. The Secretary of the Department of Labor, Licensing, and Regulation will initiate the formation of the partnership. It is also recommended that the State provide funding to begin the initial market surveys.

Future Meetings

The Chairman of the Racing Study Commission is encouraged to reconvene the Commission as results from the recommended studies become available.

Chairman's Statement

Eugene A. Conti, Jr., Chairman

First, I want to thank each member of the Commission for their service, for their openness to understanding the serious issues surrounding the horse racing industry in Maryland, and for their positive approach in reaching a consensus on recommendations to stabilize the financial viability of horse racing in the short term and to improve its long term prospects.

I offer these additional and personal comments in the hope that the work of the Commission and its recommendations will serve as the beginning point, rather than an end, to a public and open discussion of ways to keep Maryland's racing industry strong and vital in the decades ahead.

I strongly believe that an expansion of gaming -- whether it be slot machines, video lottery terminals, or other forms of casino type games -- at the racetracks, or in other locations in Maryland, would have a severe and negative long term impact on horse racing and breeding in Maryland. In fact, seeking to solve racing's problems through expanded gaming is first and foremost an admission that horse racing is not a competitive industry and cannot survive on its own. I enjoy horse racing, and believe there are enough other Marylanders who also enjoy the sport and will attend races when they are competitive and exciting. Horse racing can survive and compete successfully in today's entertainment marketplace. More important, as the change in simulcasting versus live betting at Maryland's tracks demonstrates, Maryland racing is attractive to bettors outside our State as well. And we need to develop that market.

Change is always difficult and often painful. But individuals and industries which do not embrace change enough to direct it in a constructive manner will inevitably be passed by or run over. The change process can be positive when individuals and groups work together to achieve change rather than going down fighting for pieces of a pie that is rapidly shrinking.

In that light, my own efforts will be directed in the following areas over the next year:

- 1) Reduce unnecessary or burdensome regulations. The State's interest in regulating racing should not be driven by a desire to derive tax revenues from the industry, especially when the State itself is a competitor to horse racing through the lottery. Regulation of racing should focus solely on ensuring the honesty and integrity of the competitors, both human and

equine, and on the accurate accounting and distribution of funds to bettors, owners, breeders, jockeys, and all those who are part of the racing family.

- 2) Push hard for regional cooperation on racing issues, building on ideas and activities already underway in both thoroughbred and standard bred industries. Again, the road to success will be paved through partnership not parasitism.
- 3) Open the doors to new technologies and new marketing efforts. No major sport in America has survived without adapting to the age of television and telecommunications. With appropriate and strong safeguards, telephone/interactive wagering can expand both exposure to the sport and betting on live horse racing, which will help racing compete in the 21st century.
- 4) Pursue appropriate and financially sound public/private partnerships in racing. There are models in other states which are working, some better than others. We, in Maryland, need to continue to study alternative structures and systems for keeping our racing and breeding industries prosperous without direct and ongoing taxpayer subsidy.

In the end, we should not be seeking a permanent solution to racing's ills as if there were a destination to reach. We should be seeking ways to make horse racing's journey to success a smoother and more rewarding one, a more equitable one, and one of which we can all be proud.

Horse Racing in Maryland

A Background Report

September 1997

**Department of Legislative Services
Annapolis, Maryland**

Horse Racing in Maryland

A Background Report

Horse racing in Maryland has undergone significant changes since its inception more than 250 years ago. Many of these changes occurred in the last two decades as competition for the legal gambling dollar increased and resulted in State financial relief. The industry in Maryland has generally mirrored national trends, with a decline in market share to other commercial gambling. Maryland's harness tracks have been more negatively affected than the thoroughbred tracks.

The Evolution of Racing in Maryland

Maryland's long history of horse racing began in 1743, with the creation of the Maryland Jockey Club formed to supervise a track located in Annapolis. In the early 1900s, horse racing was so fashionable that Alfred Vanderbilt was given Pimlico and Laurel for his 21st birthday. By 1950, horse racing had expanded to include four mile thoroughbred tracks, five half-mile thoroughbred tracks, and four harness tracks. Daily license fees were \$6,000, with tracks vying for the limited number of live racing days. The State wagering tax rate was as high as 7 percent. As the only outlet for legalized gambling, the horse racing industry was doing relatively well.

However, by the mid-1970s, competition for the legal gambling dollar was changing the face of horse racing in Maryland. Tracks were consolidated, as well as the ownership of those tracks. In order to help support live racing, Sunday racing, off-track betting, and intertrack wagering were introduced. Daily license fees dropped to \$25. A major decrease in the State wagering tax rate in 1985 was followed by another drop in 1997. Other types of relief were granted as well, and an executive/legislative commission was created to study ways to improve the financial viability of the racing industry. Important changes that have occurred since 1980 follow.

Regulation - Commission Consolidation and Alternatives to Live Racing

- The Thoroughbred Racing Board and the Harness Racing Board were combined into a seven-member Racing Commission, with the membership eventually increased to nine.
- Sunday racing was authorized for all the tracks by 1983.
- The Maryland General Assembly authorized the Commission to establish a system of telephone betting at the tracks in 1984.

- Through legislation, the State was allowed the first right of refusal if the Preakness is offered for sale.

Intertrack wagering and the receipt of out-of-state simulcasts was authorized in 1988. Full reciprocal intertrack wagering between thoroughbred and harness tracks was authorized in 1990.

- Satellite simulcasting was authorized in 1992, with the first of five facilities opening in 1993. A request to open a sixth facility is pending.

Track Ownerships - Changing Hands

- Laurel Raceway's name was changed to Freestate after it was sold to Frank De Francis and Martin Jacobs in 1980. The racing operation (not the land) was sold in 1987 to Mark Vogel, who had controlling interests in Rosecroft and Ocean Downs. Racing ceased at Freestate in 1989 and the land was sold to a developer.
- Rosecroft and Ocean Downs were purchased out of foreclosure in the early 1990s by Colt Enterprises, Inc., then sold in 1995 to Cloverleaf Enterprises, Inc. Bally's provided financing and obtained an agreement that it could purchase a majority interest in the tracks if legalized gambling was expanded in Maryland.
- In May, Bally's purchased Ocean Downs from Cloverleaf.
- Bowie was sold by the Canadian company Gibralter Parimutuel to the Cohens, owners of the Maryland Jockey Club and Pimlico, in 1983. The Cohens, in turn, sold a half interest to John Schapiro.
- Frank De Francis and Robert and John Manfuso purchased Laurel from John Schapiro in 1984 and the Maryland Jockey Club and Pimlico from the Cohens in 1986. The half interests in Bowie were part of both purchases, resulting in full ownership of Bowie by the partners. Joe De Francis purchased the ownership interests of the Manfuso brothers in 1994.

Financial Relief - 1985 and 1997 Packages

- ***The 1985 Package.*** For the mile thoroughbred tracks (Pimlico and Laurel), the daily license fee was reduced from \$1,000 to \$25 and the State wagering tax was reduced from 4.09 percent to .5 percent. For the harness tracks (Freestate, Rosecroft, and Ocean Downs), the State wagering tax was reduced from .75 percent to .5 percent except for Ocean Downs, which would remain tax exempt until 1992 because of its low level of average daily wagering. The State also relinquished its 50 percent share of the breakage at the harness tracks to the tracks.

The package totaled \$11.7 million, split \$11 million to the thoroughbred industry (tracks: \$7 million; purses \$3.5 million; Bred Fund \$.5 million) and \$.7 million to the harness industry (tracks and purses: \$.2 million each; Bred Fund \$.3 million).

- **The 1997 Package.** For one year only, \$5 million is diverted from the State Lottery for purses, the State wagering tax is reduced from .5 percent to .32 percent with the \$1 million difference to be distributed to purses, and \$500,000 of uncashed parimutuel tickets from thoroughbred races is diverted from the State to the Maryland Million, Ltd. to support the Maryland Million races. Beginning in fiscal 1998, the State is assuming the responsibility for payment of the personnel costs of the Maryland Racing Commission's 48 "additional" employees from the tracks, with the exception of pension contributions, relieving the tracks of nearly \$2 million of annual expenses.

The package totaled about \$8.5 million, with an estimated one-year benefit to the thoroughbred industry of \$6.4 million (ongoing benefit of \$1.6 million) and for the harness industry, \$2.1 million (ongoing \$.4 million).

National Trends in Horse Racing Show a General Decline

Based on observations of Arthur T. Johnson and Scott Messersmith, authors of recent papers on this issue, horse racing in the United States is in general decline. Data from the 1996 *Fact Book* and the August 1997 publication of *International Gaming & Wagering Business* support their observations.

- For several decades, horse racing has lost market share to other forms of commercial gambling. Horse racing's market share was around 28 percent in the 1960s. By 1982, this share had fallen to 9 percent. In 1995 and 1996, horse racing's share had dropped to 2.7 percent and 2.6 percent, respectively.
- Although horse racing handle (the total wagered) has continued to increase, other competitors for the gambling dollar show far greater growth. From 1982 to 1996, the average annual growth in wagering on horses was 1.8 percent, compared to lotteries at 18.3 percent and casinos at 11 percent. From 1995 to 1996, horse racing handle increased by 1.5 percent, compared to 4 percent for casinos, 47 percent for video gaming devices, and 11 percent for state lotteries.
- Horse racing's total handle has increased only because of simulcasting. From 1982 to 1996, the average annual decline in live handle was 6 percent. During the same period, simulcasting showed an average annual increase of 8 percent. From 1995 to 1996, live handle decreased by 14 percent while simulcasting increased by 9 percent.

- The number of live thoroughbred races run has declined each year since 1990, with 20 percent fewer live races run in 1996 compared to 1990, and a 6 percent drop from 1995 to 1996.
- Purses have continued to increase because of the combination of fewer races and increased handle from simulcasting.

Maryland Horse Racing Trends Generally Mirror the National Trends

- As shown in **Exhibit 1**, the national trends of market share loss, fewer live racing days, growth in simulcast wagering at the expense of live race wagering, and purse growth also exist in Maryland, although the trends are less distinct. The exception is total wagering, which has shown inconsistent patterns.
- Of the \$2.3 billion spent in Maryland in 1996 on legalized gambling, 25 percent was spent on horse racing and 50 percent was spent on the lottery. From 1990 to 1994, lottery sales grew on average 4.3 percent per year while wagering on horse racing grew on average 1.1 percent per year.
- The number of live days dropped by 25 percent from 565 in 1994 to 422 in 1996, with simulcasting days increasing by a similar amount.
- Since its introduction, simulcast wagering has shown an increase every year at the expense of on-track wagering on live races. In 1996, about 40 percent of total wagering was by fans at the tracks on live race days, although nationally this figure is nearer 33 percent.
- Average daily purse distributions have generally increased.
- Total wagering peaked in 1994 at \$587 million, but decreased to \$547 million in 1996, due in large part to poor performances at the harness tracks.

Exhibit 1

**Trends in Maryland's Horse Racing Industry
Thoroughbred and Harness Tracks**

Data	1997 * (Jan. - June)	1996	1995	1994
Total Wagered in MD	\$293,001,203	\$547,533,743	\$580,213,601	\$587,882,753
On-Track	\$127,987,067	\$238,350,519	\$265,685,014	\$281,622,501
Off-Track (OTBs/Intertrack)	\$165,014,136	\$309,183,224	\$314,528,587	\$306,260,252
Out-of-State Wagering on Pimlico and Laurel Races	\$197,640,901	\$316,948,057	\$227,003,156	\$158,981,304
Total Number of Race Days	n/a	597	593	644
Live	212	422	485	565
Simulcast	n/a	175	108	79
Total Purse Distributions	\$22,205,742	\$45,042,263	\$46,927,489	\$46,114,939
Track Profit / Loss	n/a	\$685,336	\$3,029,904	(\$5,055,113)
* x % of live racing days run	39%			

Note: No data were available on harness track simulcast dates in 1997. Live harness dates for Ocean Downs include the period from July 3 through August 15.

Source: Maryland Racing Commission, Maryland Jockey Club, Rosecroft Raceway, and Ocean Downs

Prepared by: Department of Legislative Services, September 2, 1997

Maryland's Thoroughbred Tracks Hold Their Own While the Harness Tracks Struggle

Compared to harness racing, Maryland thoroughbred racing attracts six times the number of fans, with four and one-half times the level of wagering. Although exporting races out-of-state is a growth business for all of Maryland's tracks, it is "big" business at the thoroughbred tracks. In 1996, the amount wagered out-of-state on live races at Pimlico and Laurel was slightly more than that wagered off-track in Maryland. At Rosecroft, the amount was slightly less.

Exhibits 2 through 4 show the last three and one-half years of wagering, attendance, purse statistics, and profitability for Maryland's thoroughbred and harness tracks. Some observations follow.

The Maryland Jockey Club (Pimlico and Laurel)

- The Maryland Jockey Club has been profitable each year shown, with 1995 a relatively good year as evidenced by the level of wagering, purse distributions, and profits.
- Pimlico and Laurel generally track the national trends, with the exception of a rise in attendance and a decrease in purses for the first six months of 1997.

Maryland's Harness Tracks - Rosecroft and Ocean Downs

- Both Rosecroft and Ocean Downs are struggling. Since the early 1980s, Rosecroft has changed ownership four times. During the same period, Ocean Downs has changed ownership five times.
- Combined losses have been incurred each year shown, although the level of loss has declined under the ownership of Cloverleaf.
- The trends at the harness tracks do not uniformly reflect the national trends.
- Rosecroft has shown significant declines in every category since 1994 with the exception of races sold out-of-state and average daily purse distributions. Although unusual, on-track wagering at Rosecroft outpaces off-track wagering; however, this spread is closing.
- Ocean Downs shows no consistent patterns, reflecting a minimal but erratic number of race days and a clear struggle to stay open. Although the numbers shown for 1997 look promising, the track is having difficulty attracting a field of horses since the opening of Harrington (in Delaware) two weeks ago.

Exhibit 2

**Trends at Maryland Thoroughbred Tracks
Maryland Jockey Club - Pimlico and Laurel**

Data	1997 * (Jan. - June)	1996	1995	1994
Total Wagered in MD	\$248,943,657	\$458,913,080	\$475,028,293	\$461,524,827
On-Track	\$103,554,553	\$194,073,382	\$209,519,785	\$214,082,485
Off-Track (OTBs/Intertrack)	\$145,389,104	\$264,839,698	\$265,508,508	\$247,442,342
Out-of-State Wagering on Pimlico and Laurel Races	\$186,899,922	\$284,610,460	\$198,961,216	\$129,680,746
Total Number of Race Days	155	248	311	297
Live	125	184	248	243
Simulcast	30	64	63	54
Avg. Daily Attendance (no OTB)	7,275	7,043	7,512	8,068
Avg. Daily Purse Distributions	\$151,930	\$160,246	\$154,893	\$145,465
Total Purse Distributions	\$18,991,248	\$37,337,220	\$38,258,515	\$35,202,540
Track Profit / Loss	n/a	\$1,720,074	\$4,156,039	\$1,167,662
* x % of live racing days run	58%			

Source: Maryland Racing Commission and Maryland Jockey Club

Prepared by: Department of Legislative Services, September 1, 1997

Exhibit 3

16

**Trends at Maryland Harness Tracks
Rosecroft Raceway**

Data	1997 * (Jan. - June)	1996	1995	1994
Total Wagered in MD	\$39,057,546	\$80,001,958	\$99,735,793	\$112,517,342
On-Track	\$20,532,514	\$40,865,123	\$53,553,981	\$62,109,573
Off-Track (OTBs/Intertrack)	\$18,525,032	\$39,136,835	\$46,181,812	\$50,407,769
Out-of-State Wagering on Rosecroft Races	\$9,390,979	\$32,337,597	\$28,041,940	\$29,300,558
Total Number of Race Days	63	286	249	248
Live	63	175	211	245
Simulcast	n/a	111	38	3
Avg. Daily Attendance (no OTB)	1,070	1,137	1,490	1,859
Avg. Daily Purse Distributions	\$39,289	\$37,986	\$37,638	\$38,485
Total Purse Distributions	\$2,514,494	\$6,647,624	\$7,941,523	\$9,351,920
Track Profit / Loss (includes Ocean Downs)	n/a	(\$1,034,738)	(\$1,126,135)	(\$6,222,775)
* x % of live racing days run	22%			

Colt Enterprises, Inc. owned Rosecroft and Ocean Downs. Colt sold both tracks to Cloverleaf in 1995. Cloverleaf sold Ocean Downs to Bally's in May 1997.

Sources: Maryland Racing Commission, Ocean Downs, and Rosecroft Raceway

Prepared by: Department of Legislative Services, September 1, 1997

Exhibit 4

**Trends at Maryland Harness Tracks
Ocean Downs**

Data	1997 * (Jul. 3 - Aug. 15)	1996	1995	1994
Total Wagered in MD	\$5,000,000	\$8,618,705	\$5,449,515	\$13,840,584
On-Track	\$3,900,000	\$3,412,014	\$2,611,248	\$5,430,443
Off-Track (OTBs/Intertrack)	\$1,100,000	\$5,206,691	\$2,838,267	\$8,410,141
Out-of-State Wagering on Ocean Downs Races	\$1,350,000	\$0	\$0	\$0
Total Number of Race Days	24	63	33	99
Live	24	63	26	77
Simulcast	n/a	n/a	7	22
Avg. Daily Attendance (no OTB)	1,800	1,116	2,163	1,558
Avg. Daily Purse Distributions	\$17,500	\$10,504	\$11,596	\$16,001
Total Purse Distributions	\$700,000	\$1,057,419	\$727,451	\$1,560,479
Track Profit / Loss (includes Rosecroft)	n/a	(\$1,034,738)	(\$1,126,135)	(\$6,222,775)
* x % of live racing days run	60%			

First meet of 1997 July 3 thru September 7.

Colt Enterprises, Inc. owned Rosecroft and Ocean Downs. Colt sold both tracks to Cloverleaf in 1995.

Cloverleaf sold Ocean Downs to Bally's in May 1997.

Sources: Maryland Racing Commission and Ocean Downs

Prepared by: Department of Legislative Services, September 1, 1997

Summary

The horse racing industry in Maryland and around the country has been faced with many challenges since its virtual monopoly over the legal gambling market ended by the 1970s. Numerous strategies have been employed over the years to stem the tide. Despite all of the efforts, the challenge identified by Scott Messersmith as "dwindling consumer demand" still exists and must be addressed if horse racing is to remain a viable industry.

**A PUBLIC POLICY FRAMEWORK FOR
EXAMINING AND RESPONDING TO THE
ISSUE OF HORSE RACING'S
FUTURE IN MARYLAND**

**A Presentation to the Commission to Study Ways to Improve
the Financial Viability of the Horse Racing Industry**

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**Maryland Institute for Policy Analysis and Research
University of Maryland Baltimore County**

September 17, 1997

ABSTRACT

A PUBLIC POLICY FRAMEWORK FOR EXAMINING AND RESPONDING TO THE ISSUE OF HORSE RACING'S FUTURE IN MARYLAND

Arthur T. Johnson

This presentation is based on a report completed in February, 1997. It addresses the issue of public policy options for Maryland horse racing absent slot machines or other new forms of gambling. The report was written independent of industry or other interests and was intended to be a stimulus to examine critically existing proposals and to develop new approaches for preserving a healthy racing and breeding industry in Maryland.

Racing is a mature industry and has not responded to the changing economic climate and new forms of competition. The perceived threat of Delaware should be viewed as an opportunity to develop a fundamentally different approach to racing which will once again put Maryland in the forefront of the racing industry and that will have a lasting impact.

Objectives

The public policy response to the problems of the Maryland racing industry should identify and address structural and financial issues as well as competitive issues. Specific short term objectives should be to generate new revenues to build competitive purses; attract new customers to maintain live betting at the track and to generate other revenues for track owners; and to modify the regulatory framework to achieve cost reduction and to permit more timely response to industry threats. However, Maryland racing experienced declining handle and declining attendance before the Delaware threat emerged. The industry's problems are more varied and more fundamental than interstate competition. Longer term solutions to racing's problems may require fundamental changes in facility development, race track ownership, and intergovernmental relations relative to racing.

Responses in place

One common response to the declining economics of racing is to downsize and consolidate. This implies reducing the number of tracks and reducing the number of live racing dates, which is already occurring within Maryland harness racing. A downsizing strategy permits race tracks to survive in the short run, but it also results in job loss and will have some negative impact on the breeding industry.

Another set of solutions has been the introduction of simulcasting and different forms of off-track betting. While these solutions do increase the handle, they do not require the fan to be at the race track to wager. For the fan who cannot physically get to a racing venue this is a favorable outcome, but to the degree that it persuades fans not to attend a race track it harms the industry and means lost revenue to the track in concessions and other non-wagering expenditures.

A third set of policy responses has been state subsidies, direct and indirect. The ostensible purpose for the most recent round of subsidies is to increase purses. Increased purses, however, are unlikely to attract new customers. Additionally, subsidies have to be continued over time. More effective use of state money would be to make infrastructure improvements and to develop a marketing plan that would begin to build an enlarged customer base and develop a new generation of racing fans. If the purpose is to assist horse owners and breeders, it may be more efficient to provide financial support directly to these groups rather than indirectly via the tracks.

Fundamental issues

Structural -- From a public policy perspective, when single private sector entities control the venues of thoroughbred and harness racing in the state, the state and other participants in the industry are placed at a disadvantage. Also, a racing commission controls racing dates and issues licenses. Most substantive changes in the regulations governing racing, however, must receive legislative approval. Legislative action is not always quick in coming and necessarily responds to social perceptions of gambling. An important policy issue is to identify alternative structures and processes for overseeing Maryland racing and for ownership of Maryland's race tracks.

Financial -- It appears that track owners have the capability in the short run to break even or to make a profit, but they are not able to make the necessary infrastructure improvements to significantly improve their facilities. Nor can they make the significant investments that are needed as a proactive step to counter slot revenue in Delaware and other neighboring states. Operating with small profit margins means that the tracks can be seriously harmed by the slightest downturn in annual revenues, which is not an unlikely occurrence given industry trends. Another policy issue, therefore, is to identify funding sources to permit infrastructure improvements that will be effective in serving Maryland horsemen and attracting customers to Maryland's race tracks, and to provide Maryland race tracks with funds to survive temporary downturns in business.

Competitive -- A third set of issues relates to competition presented by out-of-state tracks, especially those that benefit from the infusion of slot machine revenues. It is not only interstate competition with which racing must contend, however. The Maryland Lottery also attracts the gambler's dollars. Maryland racing finds itself in competition with a form of gambling, the lottery, from which its regulator benefits. If Maryland racing is to remain healthy in the long run, it must reverse current attendance trends and must build its audience by attracting new customers.

These three macro issues are intertwined and underscored by the lack of an imaginative marketing strategy designed to attract new customers and fragmentation within the industry that prevents consensus and unified political action. Any public policy response to please for legislative relief should address the industry in a comprehensive manner with responses to each of the macro issues identified.

Short term options

Policy options for the short term identified in the report are designed to reduce costs, generate

new revenue, and create new demand. They suggest the need for increased self-help by racing interests, regulatory relief, and modification of taxes and fees. However, options listed in Figure 1 will only increase track revenue at the margins. They, like downsizing and increased simulcasting, represent incremental change and short term solutions, certain to be followed by new rounds of pleas for "legislative relief."

FIGURE 1

STRATEGY

OBJECTIVES

	<u>Reduce Costs</u>	<u>Create New Revenues</u>	<u>Create New Demand</u>
Eliminate State Tax on Wagering	X		
Eliminate Local Impact Aid	X		
Grant Admission Tax Rebates	X		
Eliminate Unreasonable Mandates	X		
Redistribute Takeout Percentages		X	
Increase License Fees		X	
Provide Direct Subsidies		X	
Develop Corporate Partnerships		X	
Permit Internet Wagering		X	
Partner with Cable Television			X
Permit Night Racing (thoroughbreds)			X
Improve Marketing			X

Long term structural change

The analysis concludes that the long term solution, absent introducing slot machines at race tracks, is to fundamentally alter the structure of Maryland racing. This is based on the view that interstate competition is not the sole problem confronting the racing industry. The report ends with a brief discussion of policy options to develop a regional framework for racing, to create a new facility that would house all racing in the state and serve as an entertainment complex and tourist destination, and to transfer Maryland's racetracks from private ownership to non-profit or public ownership status or to a public-private partnership.

Develop a Regional Framework for Racing

Virtually no coordination among states takes place with regard to racing policies, racing dates, and track operations. The tracks are competing for a limited supply of horses within a geographical region and a consumer base that many believe is dwindling. The introduction of slots in Delaware has led to increased pressure in Pennsylvania and Maryland to do the same. If Maryland adopts slots, Delaware will presumably lose a portion of its consumer base. It is recommended that the governor meet with his counterparts in Delaware and Pennsylvania and possibly the governors of Virginia and West Virginia to seek a solution to interstate competition for the gambling dollar. One objective of the discussion relative to racing would be to create a

framework to oversee horse racing on a regional basis. Racing schedules, for example, might be drawn up cooperatively. Oversight might be accomplished by one interstate racing commission. Laboratory testing could be consolidated.

Build a New Facility Integrated With Other Family Oriented Attractions

For a number of reasons Maryland racing has not been able to expand its spectator base. The model of other sports suggests that there is profit to be made beyond ticket sales by attracting fans to a stadium and offering other goods for sale. All sports have demonstrated that new carefully designed facilities are important in attracting new fans. Detailed study should be made of the possibility of constructing a new racing facility that would replace the thoroughbred race tracks of Maryland. However, it is probably not a wise decision to invest public funds in a new racing facility without some other attraction or facility to accompany it. A new racing facility should be connected with another family oriented attraction capable of becoming a tourist destination center. Racing alone is not capable of achieving such an objective and is not capable of generating enough new economic activity to justify the public investment in a racing only facility. The attraction should be cross marketed with racing, and race track policies should be developed to encourage family attendance. Alternatively, it has been suggested that a new racing facility could be built in conjunction with a new state fair grounds. A new fair grounds would be able to attract more and larger events during the year than Timonium now does. It also would free up the land at Timonium for future development.

If this proposal is given serious consideration, redevelopment plans should be created for Pimlico, Laurel (assuming Laurel is not the chosen site) and Rosecroft. Pimlico, in particular, is strategically located and should be exploited for the community's benefit if it is not to be used for racing any longer. If Pimlico was kept open, it might operate on a limited schedule as does Saratoga.

Explore Alternative Ownership/Partnership Arrangements for Maryland Race Tracks

alternative race track ownership arrangements should be explored, especially if a new facility is to be built with public funds. If this alternative is pursued, the franchise for the Preakness should be obtained by the state in order to prevent the race from being relocated out of state. an alternative approach is for the state to enter into a public-private partnership with track owners wherein track profits and losses will be shared equally. This arrangement could be the price for public investment in infrastructure improvements (or a new race track if the previous option is pursued). It would lessen the financial risk for track owners and permit the state an opportunity to recoup a portion of its investment. A precedent exists in a previous lease between the City of Baltimore and the Baltimore Orioles.

Ways to Improve the Financial Viability of Horse Racing in Maryland: A Discussion of Options

September 30, 1997

**Department of Legislative Services
Office of Policy Analysis**

Annapolis, Maryland

Marketing

Overview of the National Thoroughbred Racing Association Marketing Efforts

Background

- The National Thoroughbred Racing Association (NTRA) was officially created in August, 1997. The NTRA is an alliance of the (National) Jockey Club, the Breeder's Cup, the National Thoroughbred Association, Keeneland, and the Oak Tree Racing Association, each of which has invested \$1 million in the effort. In addition the following tracks thus far are officially supporting the effort: Arlington International (now closed), Churchill Downs, Del Mar, Gulfstream Park, Hollywood Park, New York Racing Association, and Santa Anita Park.
- The mission of the NTRA is "To create a new, national organization and work with unity to increase Thoroughbred racing's public awareness, fan base, total handle, and purses." In effect, the NTRA is one of a series of attempts to create a 'league office' for Thoroughbred racing.
- A goal of the National Thoroughbred Racing Association is to make horse racing one of the top five sports in the U.S.

Market Research

- Initial work by the NTRA indicated that surprisingly little market research has been conducted in the U.S. During the planning stages for the NTRA, the participants commissioned the first national poll in 12 years on horsing racing. (See Appendix for initial survey results.) In addition to a national poll, attendees at several tracks around the country are being interviewed; Laurel Park is one of those tracks.
- In the national poll, when asked what sport they were most interested in, four-tenths of one percent (0.4 percent) volunteer horse racing, with an additional 3 percent identifying it as a sport in which they are interested. These are unprompted responses. Horse racing as a sport placed eleventh in fan interest.
- Of those who said they lived close enough to attend a horse racing event, 16 percent say they are extremely or very interested in horse racing, a decline of five percent since 1985. Fifty percent say they are not at all or not really interested in the sport, with 34 percent reporting some interest.

- Eight percent of Americans report that they have been to a track in the past year. This translates into approximately 16 million Americans, roughly half the number who attended a track 12 years ago.
- The frequency of attendance is down from an average of 6.2 visits per attendee to 3.4 visits. Fewer people are attending the tracks less often.
- Sixty-two percent of those polled reported that horse racing was interesting without the gambling.
- Interestingly, the survey respondents divided into four nearly equal groups: those who like both horse racing and gambling, those who like gambling more than horse racing, those who like horse racing more than gambling, and those who do not like either. The first group represents a clear target market. The last group will never be interested. The middle two groups might be drawn to the tracks for certain reasons.
- The conclusion of researchers reporting to the Jockey Club's 45th Annual Roundtable Conference was that, while poll numbers confirm a general decline in interest in horse racing, there is sufficient current fan base and potential fan interest for horse racing to rebound.

Summary of Key NTRA Strategies

Marketing

- Create and promote a national brand for Thoroughbred racing to raise awareness, improve image, and encourage participation.
- Target infrequent participants and "persuadable" wagering sports fans not now participating in Thoroughbred racing.
- Market both the sport and the related wagering opportunities through appropriate channels like brand and image advertising through broadcast television and promotion of interactive wagering opportunities via cable TV, Internet, and target print.
- Include customer relations within overall marketing mix and budget.

Television

- Re-brand and focus existing television product.

- Supplement existing television exposure with additional live racing, interactive cable, and "magazine" shows.
- Priority emphasis on three TV series within the "league season" (e.g., February 1 to Breeders' Cup Championship Day), including Triple Crown prep races, Handicap series (best graded races for older horses), and the Road to Breeders' Cup.
- Integrate TV plan with overall marketing effort and other national programs; feature rankings and statistics on TV and in promotions; and integrate national sponsors into TV programming (e.g., magazine show segments) and on-site exposure (e.g., signage).

Interactive/At Home

- Form strategic partnership with appropriate media company (or companies) to take advantage of new interactive television and in-home wagering opportunities.
- Pool interactive television rights for negotiation with prospective media/financial partners (e.g., be in a position to offer exclusivity on behalf of member tracks and owners).
- Use this unified approach to make best possible agreements on revenue splits, promotional benefits, financial support for national office and marketing programs, etc.

Concerns about the NTRA

- **Funding.** The initial funding source for the NTRA is through simulcast revenues. As interactive wagering increases, the NTRA hopes to rely on it as a funding source. The focus on simulcast revenues may create an inequity for those states, like Maryland, that rely more heavily on receiving simulcast signals than others, like New York and California. For this reason in particular, the Maryland tracks have not yet embraced the NTRA.
- **Return on Investment.** Some in the thoroughbred industry believe that an investment in national marketing will result in very marginal increases in local fan base and live handle. A more effective strategy might be to invest those dollars in more localized marketing strategies.
- **Control.** Thoroughbred racing is historically a decentralized enterprise. For decades, racing succeeded with local control of tracks, localized fan bases, and primarily local markets for the provision of horses. The idea of a national league office threatens the autonomy of track operators and horsemen. Whether the potential promise of a stronger national fan base is enough for these interests to give up some autonomy is still a serious issue to be resolved.

- **Emphasis.** Some argue that the NTRA's emphasis on horse racing as a sport is misguided and that racing must compete more as a form of gambling. In this case, more effort should be placed on attracting the horse player with more comfortable simulcast facilities, sports palaces, and alternative gambling attractions. This represents a classic tension in the horse racing industry between the sport and the wager. Unfortunately, this tension limits the ability of the industry to take advantage of its unique status as both a sport and a legal form of sports wagering.

Marketing Maryland Racing

- The horse racing industry has identified a set of market problems: declining attendance, aging fan base, increased competition from both other sports and other forms of gambling, and the complexity of horse betting versus other betting.
- The NTRA has also identified a set of marketing opportunities: an attractive and historic sport with tradition, beauty and "stars;" the only sport with legal wagering in most states; an untapped fan base; underutilized talent; and an information-rich and computer-friendly form of gaming.
- Little research, however, has been conducted to identify present fan base and the specific reasons for their interest, lost fan base with reasons for their departure, or potential fan base with strategies to gain their interest. Except for the recent research sponsored by the NTRA, virtually no research exists on the horse racing market in Maryland or the region.
- As a result, there is not enough information to assess whether successful models in the sports and entertainment industry, such as NASCAR and the NBA, are applicable to horse racing, or whether there is an untapped niche of the rapidly-expanding gaming market that horse racing could fill, but is not.
- There is also not enough research to answer fundamental questions important to issues to be discussed later. For instance, will horse racing ever be an attractive option for families, even if the tracks invest heavily to make themselves more "family-friendly?" What new facilities at a track might entice families to attend? If they attended, would they wager enough to make the incentives to attract them worth the investment? What improvements might be required to attract businesses and individuals to rent or purchase luxury suites or boxes at the track?
- Finally, other sports have benefitted from a symbiotic relationship with corporate sponsors. Large numbers of fans attract corporate sponsors, who because of increased advertising and sponsor/athlete identification attract even more fans. NASCAR fans immediately recognize the Rusty Wallace Miller Ford and the Terry Labonte Kellogg's Chevrolet. Fan-sponsor loyalty is reported to be surprisingly high. Can horse racing

benefit from corporate sponsorship, and are racing traditionalists willing to see the winning jockey of the NationsBank Preakness wearing a Bud cap?

Potential State Action

- The State might make future State funding contingent on the development of a comprehensive local market survey and the development of a marketing strategy.
- The State might partner with the tracks and horsemen associations for the marketing effort. Potential State partners include: the Department of Budget and Economic Development, the Lottery, or the survey research and academic marketing departments of the University of Maryland.
- The State might contract for market research and a study of the economic impact of the horse industry on its own. The results of such research may be important in determining the scope of future State investment.

Regional Racing

Background

As tracks throughout the country have closed and been consolidated, the number of live racing days and races have decreased. Since a recent high of 87,071 races in 1989, the number of races has declined 21.3 percent to 58,259 in 1996. Maryland thoroughbred tracks reflected this trend. In 1989, the number of live racing days used in three Maryland tracks (Pimlico, Laurel, Timonium) was 275. In 1996, the number of live racing days conducted on the three tracks was reduced to 245. Delaware Park, however, bucked this trend, conducting live races on 121 days in 1989 and on 139 days in 1996.

Advantages of Regional Racing

Several regions have responded by establishing local racing circuits. Illinois and New York, for example, conduct an in-state coordinated racing schedule. Maryland has entered into a racing circuit with Virginia.

- Coordinated racing days reduce competition for live attendees and for quality race horses. By reducing the number of races available, the average handle per race increases and the simulcast signal becomes more attractive to betting facilities nationwide.
- Regional racing circuits spread the operating costs of live racing. The tracks can remain open for simulcast and intertrack wagering without the expense of continuous live racing.

Disadvantages of Regional Racing

- Expanding the existing Maryland-Virginia circuit to a Delaware-Maryland-Virginia circuit would reduce the number of live races that could be held on Maryland tracks. This would cause loss of employment at Maryland tracks. Stewards, inspectors, backstretch people, and other track personnel probably would remain idle and not travel to the surrounding states when Maryland tracks went dark.
- Success of regional racing is by no means assured. Horsemen and race tracks in Maryland, Virginia, and Delaware must agree to cooperate with each other. While Maryland tracks might be able to harmonize their racing schedules with tracks in Delaware and Virginia, this fact by no means assures that Delaware and Virginia tracks would be able to harmonize their racing schedules with each other.

- Whether horsemen would participate in a Maryland-Virginia-Delaware racing circuit is highly uncertain. Delaware tracks are closer to numerous tracks with high purses in New Jersey, Pennsylvania and New York than they are to the three tracks in Maryland and Virginia. It is uncertain that creation of a Maryland-Virginia-Delaware circuit would induce horsemen to enter their horses in Maryland and Virginia. Of course, no legal penalty exists for horsemen who choose not to race in Maryland.

Legal Issues

For Maryland to participate in regional racing, two changes in existing law must be made. First, the live racing requirement that Maryland tracks must meet to be authorized to conduct intertrack wagering must be lowered. (In fact, the recent creation of the Virginia-Maryland circuit, even without including Delaware, makes it virtually certain that Pimlico Race Course will not hold as many as 90 days of live racing this year, which it is obligated to hold under existing law).

Second, the ambiguity of the term "racing day" must be addressed. A "racing day" not only means days when live racing is run but also includes days in which only simulcasts are shown. This meaning of "racing day" in turn makes it harder for tracks to meet the live racing requirement, especially for tracks whose live racing requirement is expressed as a percentage of racing days; the "75 percent rule" governing Laurel Race Course, Timonium Fair Grounds, and Rosecroft Raceway.

Potential State Action

- The State might alter the language regarding "racing days" and reduce the 90 racing day requirement for Pimlico. These measures will make it easier to coordinate race days with other states if regional racing is expanded.
- The State might discuss racing on a regional basis with other states. For example, a joint meeting of the respective Racing Commissions might be convened with track operators and horsemen's organizations.
- If Maryland does participate in a regional racing circuit, a Regional-Bred Race Fund could be formed to encourage owners of horses bred in the region to race them in the regional circuit. A percentage of each state's total gaming revenues could be allocated to the fund.

Public-Private Partnerships

One suggestion that has been raised before the commission is to form a public-private partnership that would assume ownership or operation of one or more of Maryland's tracks. The examples of such partnerships that have been discussed are: New Jersey's Meadowlands arrangement, New York's Racing Authority, Keeneland in Kentucky, and Del Mar in California. In looking at the lessons of these existing arrangements, the big questions are:

- How much would it cost?
- What would be the scope? Would it cover all of racing in the State, or only one component?
- How could any racing industry components not included in the arrangement compete?

The New Jersey Situation

- In New Jersey, an entity similar to the Maryland Stadium Authority runs Meadowlands Racetrack and Monmouth Park. Racing in fact helped finance the construction of other sports facilities.
- New Jersey horse racing, however, has not been immune to the current competitive forces, and has empowered a Racing Industry Study Commission to suggest legislative and regulatory solutions. Apparently on the agenda is the issue of racetracks getting video lottery terminals. The commission recently requested a three-month delay to the issuance of its report.

The Meadowlands

The New Jersey Sports and Exposition Authority (NJSEA) was established in 1971 by an act of the state legislature to finance, construct, and operate the Meadowlands Sports Complex in East Rutherford, New Jersey.

- The NJSEA was given authority through legislation to contract, lease property, borrow money, issue bonds, and conduct horse racing and betting.
- The NJSEA was authorized to issue revenue bonds backed by the state-run racetrack's proceeds; bond sales of \$302 million were completed in 1974.

- The Meadowlands Complex originally included the football stadium (New York Giants) along with a racetrack.
- The Meadowlands Racetrack and Giants Stadium both opened in 1976. Meadowlands Racetrack has become the host of the Hambletonian (major standardbred race). In 1984, the New York Jets also relocated to the Meadowlands.
- The Meadowlands Arena (now the Continental Airlines Arena) was completed in 1981 and cost \$80 million. The arena hosts the New Jersey Nets, the New Jersey Devils, music concerts, college basketball, and horse shows among other attractions.
- The NJSEA acquired Monmouth Park (thoroughbred racetrack) in 1985.

Other NJSEA Projects

- Thomas H. Kean State Aquarium in Camden (opened 1992).
- Atlantic City Convention Center, costing approximately \$266 million (recently opened).
- Rutgers Stadium expansion and renovation (cost of \$29 million, completed 1994).

Other Racetracks in New Jersey

A number of privately-owned racetracks operate in New Jersey separate from Meadowlands and Monmouth.

- **Freehold Raceway (Harness Track).** Several current and former track officials have expressed the opinion that the opening of the Meadowlands actually increased the quality of racing at Freehold, since the big name stables going to the Meadowlands needed another place to race.
- **Atlantic City Racetrack (Thoroughbred Track).** This facility has been in steady decline, but given the proximity of the casinos in Atlantic City it is difficult to attribute this situation to competition from Meadowlands. Recent reports indicate that track management is seeking permission to make the track into a NASCAR speedway.
- Garden State Park is also heading into difficulty.

The New York Racing Authority

The New York Racing Authority (NYRA) is a private nonprofit organization franchised by the state. The NYRA purchased four tracks from private ownership in 1955 for a cost of approximately \$20 million:

- Aqueduct Racetrack
- Belmont Racetrack
- Saratoga Racetrack
- Jamaica Racetrack

The NYRA originally borrowed \$50 million from private banks to pay for the initial purchase cost as well as additional capital expenditures. After Belmont was rebuilt in 1959, Jamaica Racetrack was shut down.

- State legislation dictates not only the takeout amount, but also its distribution to purses, NYRA, etc.
- Any profits accrued by NYRA go to the state; this has reportedly amounted to approximately \$2.8 billion since 1955.
- State also receives parimutuel betting tax of up to 1.5 percent.

Other New York Racing

- There is one small privately-owned thoroughbred track (Finger Lakes) and seven harness tracks.
- NYRA has simulcast agreements with the harness tracks though does not provide simulcast feeds of harness races at its facilities.
- NYRA may be authorized to run a harness meet. (The Yonkers track might close, which does \$70 million a year in NYRA simulcast. NYRA would have to run a live harness meet to continue the simulcast operation.)
- New York tracks are looking for alternative forms of gaming such as video lottery, particularly the harness tracks which are in steep decline.

- Off-Track Betting facilities are separately franchised by the state to six different public benefit corporations that have regional rights; these facilities are a major competitor with many of the tracks.

Keeneland (Kentucky)

- Keeneland is a combination thoroughbred race course and sales company that is a non-dividend paying corporation. The association started as a nonprofit formed by a group of breeders in the 1930s, but lost the nonprofit status in the 1950s or 1960s.
- Profits are returned in purses, capital improvements, and charitable giving; in the event of the association's dissolution, all net proceeds must be donated to tax exempt organizations.
- Keeneland holds five auctions per year (over a 30-day period) which is more significant dollar-wise than live racing (31 or 32 race days per year).

The Competition

- Keeneland is only one player in a strong Kentucky racing industry, with other tracks such as Churchill Downs and Turfway Park also on the scene.
- Keeneland did not consider itself in competition with any other racecourses until the advent of simulcasting in 1988. The Red Mile is a harness track in close vicinity to Keeneland, and under Kentucky law simulcasting is shared in counties with more than one racetrack.
- A recent agreement was made under which Keeneland will pay The Red Mile \$4.6 million for exclusive rights to simulcast thoroughbred racing in Fayette County, starting January 1, 1998. The Red Mile will get all harness race simulcasting.
- Keeneland is seeking a "breed to breed" law from the General Assembly in 1998 to formalize the arrangement.

Del Mar (California)

- Del Mar Racetrack is part of the Del Mar Fairgrounds and is owned by the 22nd District Agricultural Association; the track itself is leased to the Del Mar Thoroughbred Club through a management contract. Del Mar runs a 43-day Summer Race Meet.

- Under the lease agreement, the state gets all of the net profits of the track. This payment could be through capital improvement projects rather than cash; this year total rent is expected at \$5.14 million, though much of this will go toward expanding luxury suites at the track. The club brought in total revenues of \$24 million in 1995.
- The 22nd District Agricultural Association directly operates a satellite simulcast facility on the fairgrounds separate from the racetrack that is operational when the track is "dark"; this facility has a restaurant, theater, and meeting rooms in addition to betting facilities.
- The Del Mar Racetrack Authority was created to handle the issuance of revenue bonds to replace the grandstand areas, which commences in 1991. This project included a seismic upgrade, expanded seating, and enhanced premium seating.
- Del Mar benefits from its location in a resort area and has fairly affluent patronage.

The California Situation

- Del Mar is only one of a number of quasi-public and private tracks in California. Most of the other quasi-public tracks are also associated with fairground organizations and operate similar to Timonium.
- The issue of Video Lottery Terminals is also on the agenda in California, though doubts are expressed about the likelihood of any authorizing legislation.

General Observations

- The associations represented by Keeneland and NYRA are similar to the Cloverleaf organization. While this has proven to be successful for these organizations, the possibility of such an arrangement having a significant impact on the financial viability of Maryland horse racing is fairly minimal. Keeneland has its horse auctions as a major source of revenue, and NYRA has several premier tracks; both organizations were formed at a more advantageous time.
- New Jersey and Del Mar were also formed at a more auspicious time for horse racing, though both tracks are still money makers. Regardless, the direct state involvement in these two tracks is something that could significantly impact the racetracks if replicated in Maryland. The NJSEA owns and operates the Meadowlands, while California owns the Del Mar property which is then leased to a private management company.

- The cost to the State from assuming ownership of one or more of the tracks could be significant. In the most recent transactions, Rosecroft and Ocean Downs were purchased for \$10 to \$12 million. Pimlico (and the Preakness) was purchased for \$30 million, and Laurel went for \$12 million. Finding a revenue stream in Maryland to pay for any necessary revenue bonds would be difficult.
- The success of any State takeover of any one or all of the tracks in Maryland hinges upon additional interest in racing being generated through investments in marketing, capital improvements, and purses and other incentives that attract quality horses. State action is unlikely to have a positive impact without such a commitment.
- Even if a successful public-private venture is formed, it is unlikely to be enough to head off discussion of alternative forms of wagering due to the competitive environment.

Conclusion

Should the State decide to assume ownership of all the racetracks in Maryland, the approximately \$50 million it would take to buy the tracks seems reasonable in the light of ongoing stadium and convention center projects throughout Maryland. However, there are obvious difficulties in taking such a course. Would the Maryland Jockey Club be willing to sell Pimlico and the Preakness for the same \$30 million that the organization paid for it? Would the State keep all of the tracks open, would it consolidate the tracks, or would all of the existing facilities be closed in favor of a "supertrack?" How would all of this be paid for? How much in additional capital and marketing investments would be needed to truly reinvigorate the industry? Could even significant State investment accomplish this goal?

These are the obvious questions, and there are many more not discussed here. Before seriously considering such an option, an in-depth study would need to be performed on its practicality.

Interactive Wagering

- Interactive wagering has been proposed as a method for increasing the wagering pools on horse races run in the State. The increased pools would benefit the tracks and horsemen and, indirectly, the rest of the horse racing industry in the State.
- No matter what action is taken in Maryland to implement interactive wagering, some residents of Maryland are still likely to participate in a type of interactive wagering. Telephone betting is currently being made available to Maryland residents through Pennsylvania and New York. There are also Internet sites that purportedly would allow Maryland residents to bet on horse races. Unfortunately, any interactive wagering that is done through a form of interactive wagering not authorized by the State would have minimal benefit, if any, to the tracks and horsemen in the State.
- If interactive wagering is authorized in Maryland, there will be benefits to the tracks and horsemen, but there will also be increased social costs.

Background

- Interactive wagering is a method of placing bets on horse races from a remote location (e.g., a home) through the use of telecommunication technology.
- It includes telephone betting (or telephone account betting, as the term is used in Maryland), Internet betting, and cable TV/telephone betting.
- It does not include OTB or intertrack wagering.

Current Industry Proposal for Maryland

- The type of interactive wagering that is being discussed for Maryland is the type tested in Kentucky that provides live video of horse races via cable TV and for which patrons activate accounts with a "Smart Card" and wager electronically using a remote control.
- Eight racetracks around the country, including Laurel and Pimlico, have been reported to have made commitments of their races to On Demand Services (ODS) for the next five years. The other racetracks are Churchill Downs, Gulfstream Park, Hollywood Park, Lone Star Park at Grand Prairie, Santa Anita Park, and Turfway Park.

- Under the proposed concept, the races would be broadcast on Television Games Network (TGN), a national entertainment and wagering network featuring horse racing created for this purpose. TGN is hoping to begin broadcasting by late 1998.
- It is expected that this form of interactive wagering will be possible in states that have telephone betting legislation already in place. Maryland is included in that list along with Connecticut, Kentucky, Nevada, New York, Ohio, Oregon, and Pennsylvania.

Types of Interactive Wagering

Whether any action is taken in this State to approve or support interactive wagering, the State will be impacted by interactive wagering that is conducted outside its borders. For that reason it is important to understand what other options now exist and what impact they are likely to have on the racing industry within the State and on the residents of the State.

Telephone Betting

- Description - Traditional telephone betting systems require setting up an account and making bets through a telephone operator. It is very labor intensive. Several states allow bets from a state, including Maryland, that have authority for telephone betting even if telephone betting is not actually conducted in the State. In some locations, races are shown on cable TV, handicap information is available through the Internet, and bets are then made by telephone.
- Where Authorized - Connecticut, Kentucky, Maryland, Nevada, New York, Pennsylvania, Ohio, and Oregon. (Note: In Maryland, the authority is only for the Racing Commission to authorize telephone account betting.)
- Where Conducted
 - Pennsylvania - Accepts bets from all over the United States for any race that comes into the state. Advertises 800 number. In 1995, \$30 million was attributed to telephone betting for in-state only. (Figures including out-of-state bets are not available.)
 - New York - Accepts bets by phone from some residents of other states that allow parimutuel betting. In 1996, \$18 million was attributed to telephone betting.
 - Connecticut - Accepts bets by phone from some residents of other states. In 1996, \$17 million was attributed to telephone betting.

- Impact in States Where Conducted - Estimates indicate that in Pennsylvania, 10 percent of total wagers is attributable to telephone betting; in New York, 5 percent is attributable to telephone betting.

Internet Betting

- Description - Internet sites are being tested that would allow bettors to register and place bets and provide live video coverage of horse races.
- Where proposed
 - Ontario - Ontario Jockey Club has HorsePlayer Interactive web site that currently gives information on placing bets by telephone, up-to-the minute odds, and other racing information; provides live video coverage of horse races.
 - New York - Capital District Regional Off-Track Betting Corporation (Capital OTB) has test site for their Cyber-Mutuel Internet Wagering System; not clear whether operational.

Cable TV/Telephone Betting

- Description - Cable TV provides live videos of horse races. Bettors set up accounts and use remote control devices to place bets.
- Where authorized - Kentucky and arguably in other states where telephone betting is authorized.
- Where conducted
 - Kentucky - Churchill Downs in partnership with On Demand Services Technologies (ODS) and TKR Cable of Greater Louisville has tested system in 1,200 homes where patrons activate accounts with a "Smart Card" and wager electronically using a remote control.
- Impact - In the Kentucky experiment, subscribers started betting \$200 to 300 per week even if they had not been regular horse players. Marketing research shows that interactive home betting appeals to two groups: (1) people in their 20s and 30s who play the lottery or otherwise gamble but do not go to horse races; and (2) current regular horse players.

Other Emerging Technologies

The technology developed by ODS is not the only technology that would allow interactive wagering television screens. There are a number of other interactive cable TV operations in the United States. Also, there are several companies that are developing digital broadcast satellite service that will allow high speed Internet service and interactive services like those being developed by ODS.

Legal Issues

- Legislative Authority - Racing Commission is authorized to implement a system of telephone account betting. That may include a cable TV/telephone betting system using ODS technology.
- Federal Legal Issues
 - There is a question whether interactive betting of any form on out-of-state races is legal under federal law, including the Wire Act, the Travel Act, and other federal statutes.
 - Legislation is being considered in Congress to prohibit interstate wagering over the "wires" of the Internet, e.g. Internet Gambling Prohibition Act sponsored by Senator Jon Kyl of Arizona.
 - The National Gambling Impact Study Commission is studying the issue of gaming on the Internet.
- Legal Actions in Other States
 - Kansas Attorney General issued an opinion in 1996 that "placing, receiving or forwarding a bet, or conducting a lottery, over the telephone or Internet is illegal."
- Missouri, Minnesota, and Wisconsin have filed actions to challenge on-line gambling.
 - Missouri and Minnesota have charged individuals of fraudulently representing to state residents that gambling over the Internet is legal.
 - Missouri has filed criminal charges against Interactive Gaming and Communications Corp. (Federal agents raided their Blue Bell, Pennsylvania office and froze accounts of thousands of bettors.)

- The attorney general of Wisconsin sued the Coeur d'Alene Indian Tribe of Idaho that established an on-line lottery.

Social Impact

Whenever additional forms of gambling are authorized, there is a concern that there will be an increase in pathological gambling. Certainly the proposed form of interactive wagering could lead to increased pathological gambling since it makes it so easy by allowing bettors to place their bets from their homes.

Estimates on rates of problem gambling in the United States range from 2 - 6 percent of adults. The percentage tends to be higher where gambling is more available. Estimates in social cost range from \$13,600 to \$38,400 per gambler.

Conclusions

Interactive wagering is one method for increasing the wagering pools on horse races in the State. The increased pools would benefit the horse racing industry in the State. However, there are social costs to be considered as well.

Even if no action is taken by Maryland, there may be some form of interactive wagering available to residents of Maryland. However, action at the federal level may impact on the types of interactive wagering that Maryland and other states may conduct.

Bowie Race Course Training Center

Maryland law currently requires the owner of the Bowie Race Course Training Center to operate the center as a training facility and assume the costs to improve, maintain, and operate the center. This requirement is viewed by some as unduly burdensome to the owners. No other state imposes a similar requirement. Racing Study Commission members requested that the staff identify potential options for relieving the current owners of all or part of the responsibility of operating, maintaining, and improving the center.

History

- 1914 - opened as a mile thoroughbred track.
- 1985 - Chapter 7 reduced the State wagering tax and closed Bowie for racing purposes but imposed certain requirements on Bowie's owners and the Maryland Racing Commission, specifically:

The owner of the Bowie Race Course Training Center shall operate the center as a thoroughbred training facility to provide more stall space for a race meeting that a licensee holds. The owner of the Bowie Race Course Training Center is responsible for the cost to improve, maintain, and operate the Center...the Commission shall have general regulatory jurisdiction over the Center...
(Business Regulations Article, Section 11-519).

- 1986 - Frank DeFrancis and his partners obtained ownership of Bowie and the majority of its real property through the purchases of Laurel and Pimlico.

About the Bowie Race Course Training Center Facility

- 178 acres, zoned residential for commercial use, a small portion of which is flood plain of the Patuxent River
- Facility includes stalls, housing units, an indoor loping track, a mile outdoor track, a 5/8ths mile track, an uninhabited grandstand, and other land
- 950 stalls available, with 650 filled as of August 22, 1997 (prior to the Colonial Downs meet)
- 111 trainers operate out of Bowie

- 115 laborers reside in the housing at Bowie
- The Maryland Jockey Club (MJC) estimates that 50 to 100 businesses are affiliated with the operations of the center, although many of these same businesses also supply products and services to Laurel and Pimlico

The Value of the Bowie Race Course Training Center

- To the Maryland Jockey Club
 - Assessed value of the real property is \$6.2 million
 - Annual operating costs are \$2.3 million
 - Capital improvements list totals \$24.4 million
 - Helps provide the tracks with horses to race ("the show") by providing stalls, training tracks, at a location relatively close to the two operating tracks
 - Fulfills legal requirement
- To the Horsemen
 - A training facility which includes housing for employees, without the obligation to contribute toward fixed costs of the facility, as long as they "meet the eligibility rules that the Commission or a licensee adopts" (Business Regulation Article, Section 11-503)
- To the City of Bowie
 - \$18,000 per year (\$50 per day when the training facility is open)
 - No property taxes since the center is located outside of the city limits
 - Open space
 - Employment center
- To Prince George's County
 - \$100,000 per year for lost admissions and amusement tax
 - \$60,000 per year in property taxes

- Open space
- Employment center
- To the State
 - \$5,200 per year in property taxes
 - Open space
 - Employment center
 - Pacifies local concerns related to the 1985 legislation consolidating the tracks
 - Indirectly supports the racing industry in Maryland

Option 1 - Close the Center

Based on information from the Maryland Racing Commission and the MJC, between 2,000 and 2,600 horses are needed to conduct a race meet. The current stall capacity at the three tracks is 2,600: Bowie - 950; Laurel - 900; and Pimlico - 750. To continue to provide the current level of services to the horsemen, existing additional capacity would have to be located and/or new capacity built if the center were permitted to close.

- Potential Existing Capacity
 - The Prince George's Equestrian Center - a "multi-purpose" 100-acre facility owned and operated by the Maryland National Capital Park and Planning Commission; \$6.6 million in State capital grants; 340 permanent stalls available of which 90 are allocated for thoroughbred trainers; 20 are currently filled by six trainers; the track is 5/8ths of a mile long; the charge for use of a stall and the track is \$90 per month
 - Fair Hill (Cecil County) - 6,000 acres purchased by the Department of Natural Resources for \$3.5 million; \$2.5 million capital investment; annual operating costs of \$900,000 all recovered from a lease agreement, events, and hay operation; 396 stalls, all occupied, plus two training tracks (a mile track with a 7/8ths mile track inside the mile track) all owned by a "condominium" association; 286 stalls are used by association members; 110 stalls are used by non-members, of which 60 are leased by Delaware Park; in addition to association fees, stabling fees are \$5 per day for members; non-members pay \$6 to \$7 per day; about 20 percent of the horses stabled at Fair Hill race in Maryland

- Timonium - 500 stalls available; no boarders; the half-mile track is not maintained except for the two weeks of racing during the State Fair; the Fasig Tipton sales are held at Timonium
- New capacity could be logically added at Laurel, since the MJC owns undeveloped land at Laurel.
- The Costs
 - Closing the center would eliminate operating costs of about \$2.3 million per year in addition to the need to spend an estimated \$24.4 million for capital improvements.
 - Costs would be shifted, regardless of whether existing capacity was located and/or new capacity was built. The questions are "*how much?*" and "*paid by whom?*"
 - "*How much?*" Assuming that existing capacity is insufficient and stalls cost approximately \$7,500 each to build, adding 600 to 1,000 stalls at Laurel would range from \$4.5 million to \$7.5 million. MJC believes a training track would also be necessary at a cost of \$4 million. Adding housing units is estimated at another \$4 million. At the high end, the capital costs could range from \$15 million to \$20 million.

Operating savings would range from \$300,000 to \$1.3 million per year. Proceeds from the sale of Bowie could be reinvested at Laurel. The land would likely be more valuable if it was sold for commercial development as opposed to residential development. Based on conversations with representatives from the City and County, commercial development proposals would be met with great resistance. Building single family homes would be met with less. Recently, the adjoining 625 acres sold for \$10 million for single family homes. Program Open Space funds could potentially be used to purchase the flood plain areas.

- "*Paid by whom?*" Currently, trainers do not pay any portion of the fixed costs to board and train at any of the three tracks. This is the standard in neighboring states as well during meets, if not year round. This is the first year that Maryland did not conduct racing year round. If a portion of these costs was shifted to the trainers, some trainers may find alternative arrangements. Although this might decrease the number of stalls needed, it could also threaten horsemen's loyalty to racing at the Maryland tracks.

The State could defray some of the costs by offering an operating subsidy and/or low interest loans, loan guarantees, or capital grants.

Neither the county nor the city is likely to have an interest in sharing in the costs of relocating the facility.

Option 2 - Shift the Financial Responsibility for the Costs of Operating, Maintaining, and Improving the Center

Continued operation of the facility will cost approximately \$2.3 million per year, plus an estimated \$24.4 million in capital improvements in the out-years. As long as the center continues to be operated as a training facility, a similar level of expenditures will be required. The questions become "*who could these costs be shifted to?*" and "*are there opportunities to decrease or offset these costs?*"

- The parties that have an interest in the continued operation of the center includes the horsemen, the racetracks, Prince George's County, the City of Bowie, and the State. Many horsemen prefer the track surface and location at Bowie. The racetracks need "the show" which the horses trained and stabled at Bowie help provide. Prince George's County and the City of Bowie benefit little from the tax revenue and/or special fund subsidies provided, but they do benefit from the open space provided by the track and the facility as an employment center. The State benefits similarly; however, its more direct interest is in maintaining a healthy horse racing industry generally.
- State Participation
 - The State could provide a subsidy in the form of an operating grant and/or low interest loans, loan guarantees, and capital grants. Making necessary capital improvements could potentially reduce operating costs.
 - The State could purchase the facility from the current owners and either operate or lease out the facility. Some costs could potentially be recovered through the sale of any unused land, the lease fee, or imposing a fee for stabling and training on the horsemen. No fees are currently imposed at any Maryland track for stabling and training horses based on the rules established by the industry. Other revenue generating ideas that would be consistent with the main use of the center as a horse training facility could also be pursued.
- County/City Participation
 - The County/City could forego the proceeds from the grants provided from the special fund, credit taxes, or purchase the facility to better protect themselves from any future "negative use," such as commercial development. Opportunities for recouping any investment would be the same as those mentioned for the State.
- The Horsemen
 - It is unclear what the monetary value is to horsemen of training on the Bowie track or being located at the Bowie location, particularly since they currently access these services for no charge and no other track charges. To the extent that the center has

untapped revenue-generating capability, forming a cooperative and purchasing the facility may be an option for the horsemen, but not a likely one.

Summary

Assuming the MJC has the financial capacity to invest in the capital improvements required at Bowie, it must also have the capacity to invest in building additional stabling and training facilities at Laurel. Laurel requires a lower capital investment. Furthermore, there would likely be economies realized by consolidating operations.

There are several impediments to this approach, however. The legal requirement concerning the operation of Bowie would need to be repealed. In addition, the MJC would need to be allowed to sell the land while meeting the county's and city's criterion of "non-negative use." Finally, some horsemen currently training at the center may not be pleased about relocating. The MJC lenders would also have a significant role in any financial decisions.

A State purchase of the center is an option, although the recovery of operating and capital costs would be difficult to accomplish. Undoubtedly, State financial participation in the forms mentioned previously would be beneficial to the tracks. However, any State loan would likely be subordinated or unsecured.

Land Preservation Programs

Staff were requested to examine any current State land preservation programs which could benefit the racing industry. The Agricultural Land Preservation Program was identified as one which could potentially be used to benefit the breeding side of the industry.

The intent of the General Assembly in creating the Agricultural Land Preservation Program was to preserve productive agricultural land and woodland which provides for the continued production of food and fiber, to limit the extent of urban development, and to protect agricultural land and woodland as open space. Under the program, the State purchases development right easements from landowners who voluntarily desire to sell the easements. Land is eligible for the program if it meets certain criteria, the two most important of which are size (with certain exceptions, at least 100 acres must be placed into the program) and soil quality. Landowners apply to sell their development rights to the State under a competitive process.

- Many high-quality breeding farms are currently in the program
- The number of farms (or acres) cannot be ascertained because use of the property can change once it is in the program, so long as it is for agricultural use and operations are performed in accordance with good husbandry practices
- Every year, there is a large shortfall of funds required to purchase all easements for which owners have applied--the total asking prices of landowners seeking to sell easements to the program is expected to be \$116 million in fiscal 1998; an estimated \$13 to \$16 million is expected to be available
- Specific incentives could be introduced for owners of breeding farms to enter the program, but other agricultural interests would desire special treatment as well

Continued Financial Relief

House Bill 315 lowered the wagering tax to the lowest rate possible while still allowing continued funding of impact aid and other statutory grants. Lottery revenues were also distributed to the industry to enhance purses. Repealing the sunset would continue a wagering tax rate of 0.32 percent, which should allow the statutory obligations to be covered by estimated revenues

- An additional \$1.8 million could be diverted to purses through the outright repeal of the tax, but impact aid and other distributions would presumably have to be paid from the general fund.
- The first \$5 million in excess of \$334.2 million of fiscal 1997 general fund lottery revenues was used to enhance purses. Actual revenues totaled \$361.0 million, so \$5 million went to enhance purses and there was still a \$21.8 million surplus.
- The fiscal 1998 general fund lottery revenue estimate is \$358.6 million.
- Lottery funds of \$5 million (or any amount) could be used to enhance purses, improve physical plant, service debt required to purchase tracks, or for any other purpose.

Appendix A

National Thoroughbred Racing Association (NTRA)

Marketing Poll Data

September 1997

1100 Spring Street, Suite 600
Atlanta, Georgia 30309

Telephone: 404-873-5669
Fax: 404-873-5720

Thoroughbred Racing Market Research

MAY-JUNE

JULY-AUGUST

SEPTEMBER-OCTOBER

**Review Existing
Research**

**U.S. National
Survey of Adults**

**Belmont TV
Viewers Study**

**Names & Logo
Tests**

**At-Track Interviews
Wave #1**

**Advertising
Development
& Tests**

**At-Track
Interviews
Wave #2**

**Repeat-Fan &
New-Fan Telephone
Surveys**

**Novice Fan At-
Track Group Tests**

Thoroughbred Racing is available to more Americans...

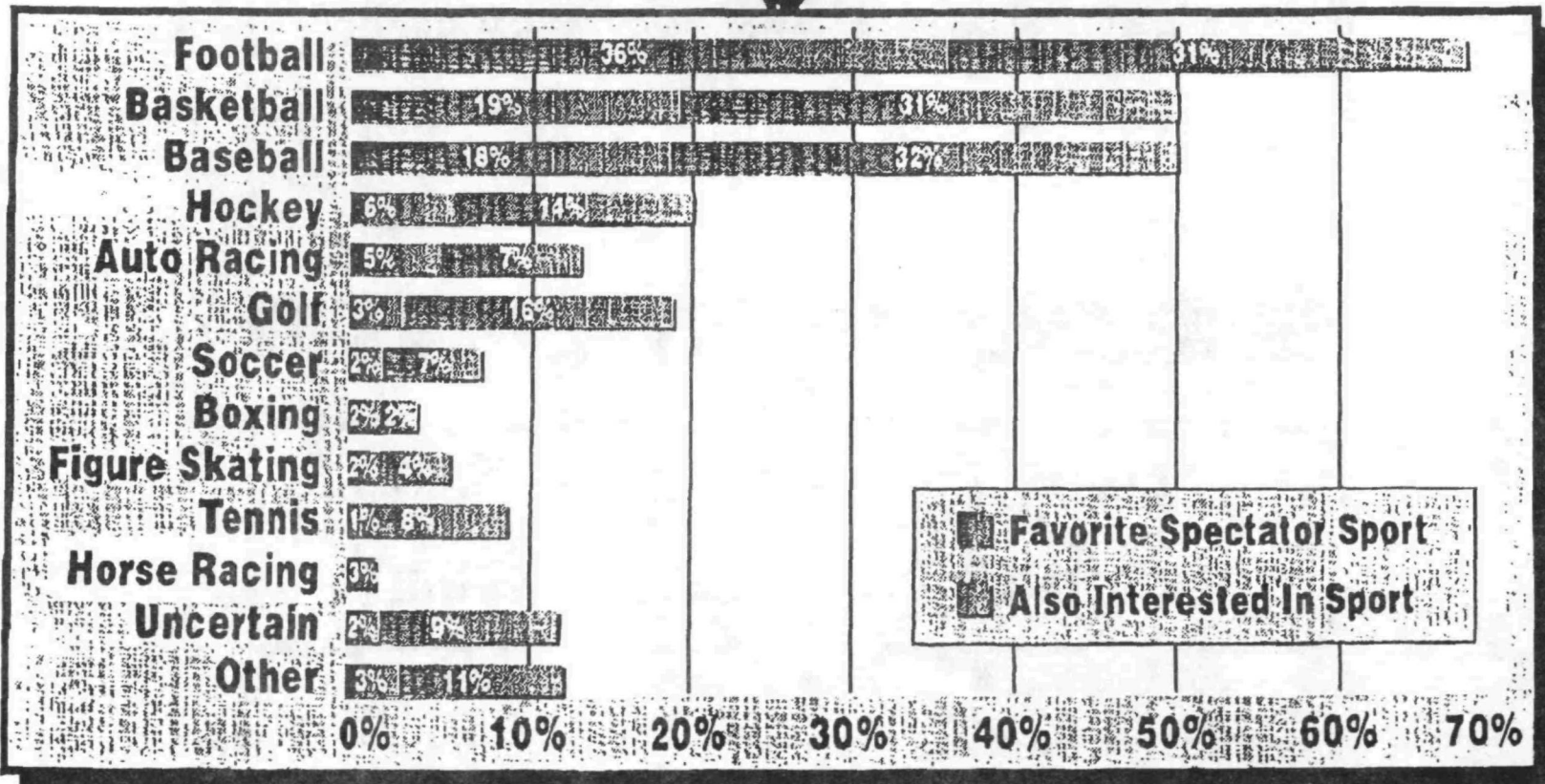
**DO YOU LIVE WHERE YOU COULD
ATTEND A THOROUGHBRED RACE?**

Yes	1985	43%
	1997	53%
<hr/>		
Increase		+10%

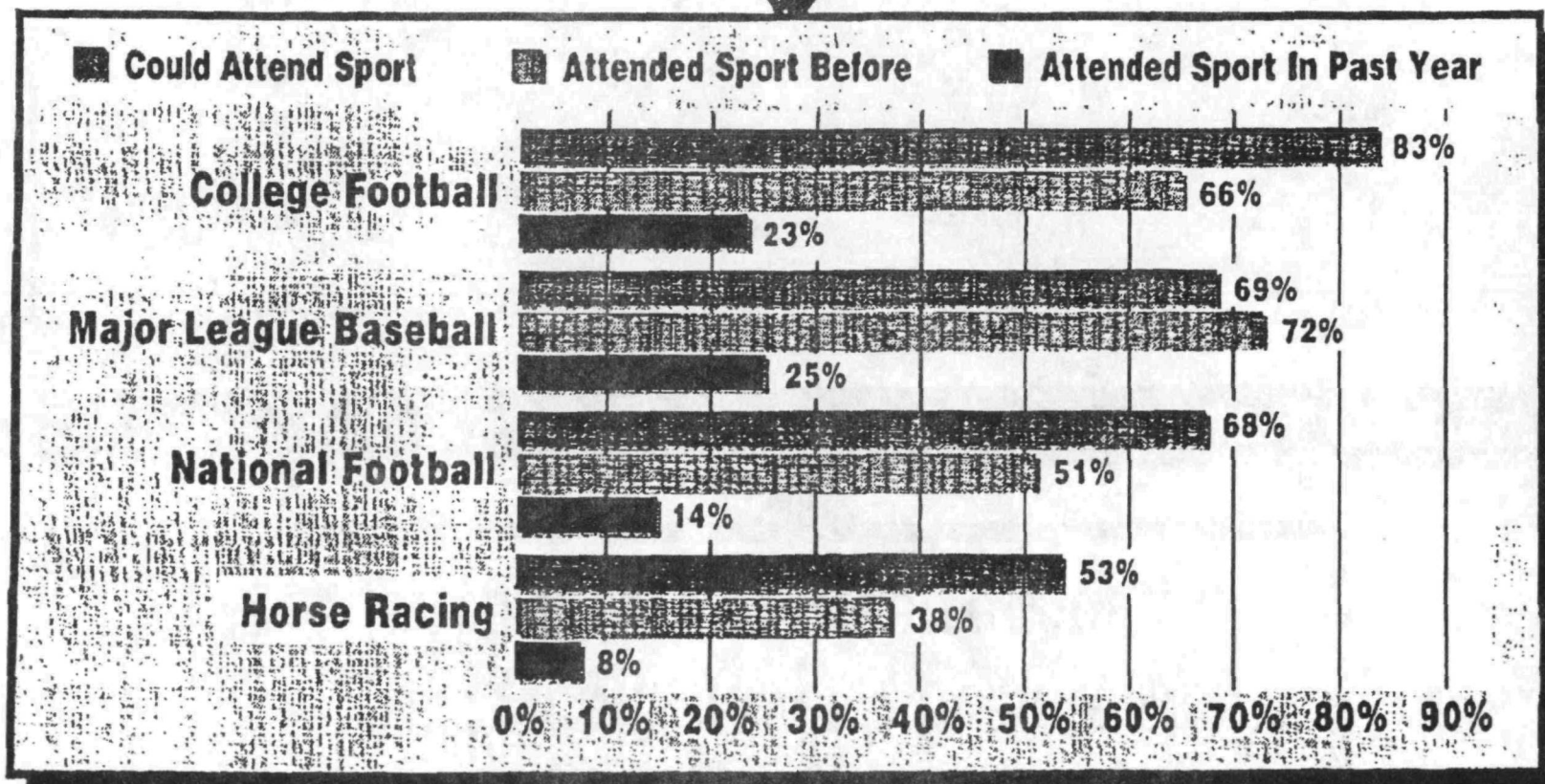
**Among those who could attend a
race, core fan interest is lower...**

	1985	1997	Change
Extremely	6%	2%	-4%
Very	15%	14%	-1%
Somewhat	30%	34%	+4%
Not Really	18%	18%	--%
Not At All	31%	32%	+1%

Thoroughbred Racing is volunteered
as the most popular by 0.4% of the
public with another 3% interested



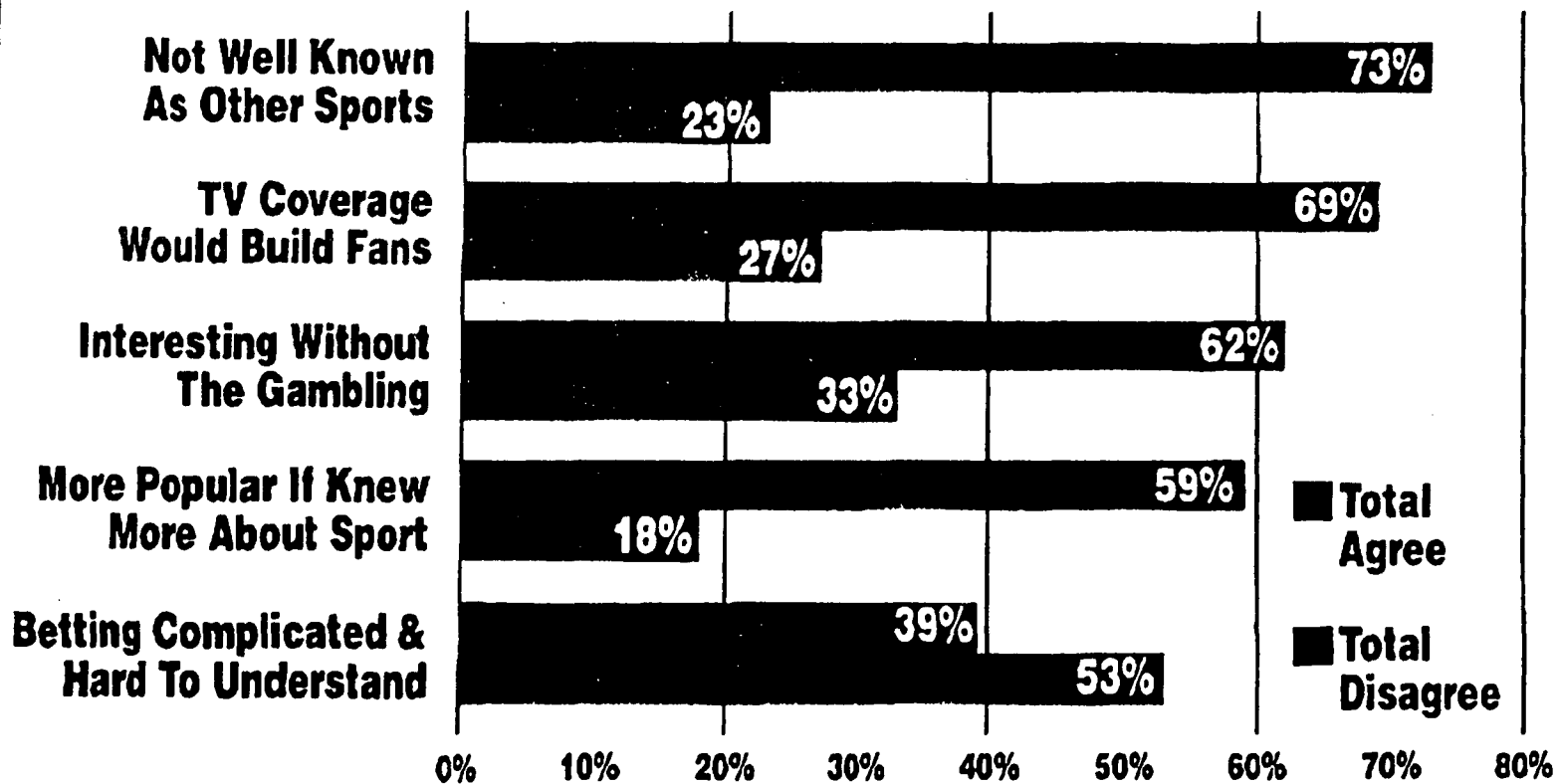
Eight percent have attended in
past year = 16 million Americans



**Americans haven't been to the
track lately or often enough...**

	LIVE NEAR TRACK		TOTAL PUBLIC
ATTENDED RACE:	1985	1997	1997
Past Year	26%	14%	8%
Have Ever Attended	58%	57%	38%
Never Attended	42%	43%	62%
Avg. Times Past Year	6.2	3.4	3.2

Beliefs About Horse Racing



Horse Racing Characteristics

THOUGHTS ABOUT HORSE RACING:

- 32% Identify Horse Racing With Gambling**
- 20% Think Of Horses As Beautiful Animals**
- 15% Identify Specific Tracks Or Racing Events**
- 16% Associated With Excitement, Fun, & Fast Action**
- 9% Connect To Big Business, Money, & Corruption**
- 6% Think Of Abused Or Mistreated Animals**
- 5% Associate Horse Racing With Jockeys**

Horse Racing Characteristics

FAVORABLE IDENTIFICATION WITH HORSE RACING:

- 23% Horses Are Beautiful**
- 12% Winning & Betting**
- 10% Excitement Of The Race**
- 9% Fun To Watch**
- 8% How Horses Are Trained**
- 6% Atmosphere At Horse Races**

Horse Racing Characteristics

UNFAVORABLE ASSOCIATION WITH HORSE RACING:

30% Gambling

14% Abused Animals

13% Injuries To Horses & Jockeys

6% Criminals Fixing Races

4% Drugged Horses

Racing Can Compete With Other Televised Sports

**COMPARED TO OTHER TELEVISED SPORTING
EVENTS, WAS THE BELMONT STAKES:**

Much More Interesting	28%	51%
More Interesting	23%	
Less Interesting	20%	24%
Much Less Interesting	4%	

When People Watch Televised Racing, They Want To Play

**IF YOU COULD BET LEGALLY OVER THE
PHONE OR THE INTERNET, WOULD YOU
HAVE BET ON THE BELMONT STAKES?**

Very Likely	33%	57%
Somewhat Likely	24%	
Not Likely	43%	

Changes That Would Increase Personal Interest In Racing

	AMERICAN PUBLIC	FANS AT TRACKS
A new nationally televised racing season	+40%	+52%
National rankings of top horses	+40%	+51%
Nicer facilities, more friendly atmosphere at tracks	+38%	+66%
Easier & simpler ways to wager	+22%	+50%

Racing Target Markets

GAMBLING INTEREST

HIGHER

LOWER

Like Gambling
More Than Racing

23%

Core Target

25%

Non-Target

28%

Like Racing More
Than Gambling

24%

LOWER

HIGHER

THOROUGHBRED RACING INTEREST